

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CORINTH WATER)	
DISTRICT FOR A RATE ADJUSTMENT)	
PURSUANT TO THE ALTERNATIVE RATE)	CASE NO. 96-292
FILING PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On June 24, 1996, Corinth Water District ("Corinth Water") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Corinth Water's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order, or 90 days after the date the application was filed, whichever is later, to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 13th day of September, 1996.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION



For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CORINTH WATER)
DISTRICT NUMBER ONE FOR A RATE)
ADJUSTMENT PURSUANT TO THE ALTERNATIVE) CASE NO. 96-292
RATE FILING PROCEDURE FOR SMALL UTILITIES)

STAFF REPORT

Prepared By: Carl Salyer Combs
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Financial Analysis Division

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Communications, Water and
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STAFF REPORT

ON

CASE NO. 96-292

A. Preface

On June 24, 1996, Corinth Water District ("Corinth") filed an application with the Commission seeking to increase its water rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rates would generate approximately \$59,735 annually in additional revenues, an increase of 24.95 percent over normalized test-year revenues of \$239,375.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Corinth's operations for the test period, calendar year 1995. Since Corinth requested and received Staff assistance in preparing this application, the field review was done prior to the filing of the application. Carl Salyer Combs conducted the review on May 10, 1996, at Corinth's office in Corinth, Kentucky. Mr. Combs is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Christopher H. Smith of the Commission's Division of Rates and Research.

During the course of the review, Corinth was informed that all proposed adjustments to test-year expenses must be supported by some form of documentation, such as an invoice, or that all such adjustments must be known and measurable. Based

upon the findings of this report, Staff recommends that Corinth be authorized to increase its annual operating revenues by \$59,735.

Scope

The scope of the review was limited to obtaining information to determine whether reported test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

B. Analysis of Operating Revenues and Expenses

Operating Revenues

Corinth's net operating income statement for the test year showed test-year revenues from water sales in the amount of \$228,133. Corinth's billing analysis, which Staff prepared using test year actual rates, produced revenues from water sales in the amount of \$229,574. On November 1, 1995 Corinth received an increase from its wholesale water supplier, the City of Williamstown. Corinth, in turn, increased its rates to its customers by means of a Purchased Water Adjustment. Based on the rates from the Purchased Water Adjustment in November, Corinth's test year normalized revenue from water sales is \$233,354.

Operating Expenses

Corinth incurred, and the Staff-assisted application included, test-period operating expenses of \$213,665. Corinth proposed to reduce that amount by \$2,610. Corinth's proposed adjustments and Staff's recommendations are discussed in the following sections:

Salaries and Wages, Employees

Corinth proposed to increase reported test-year salaries and wages for employees of \$37,962 by \$630 based upon a raise received by a part-time employee during the test year. The part-time meter reader's hourly wage was raised from \$6.50 to \$7.00 per hour, an increase of 7.7 percent. Having worked 1260 hours during 1995, a \$.50 per hour raise yields an annual increase of \$630. Staff is of the opinion that the proposed adjustment is reasonable and recommends inclusion of annual salaries and wages for employees of \$38,592 for rate-making purposes.

Purchased Water Expense

Corinth proposed to increase reported test-period purchased water expense of \$81,847 by \$5,222 based upon an increase from its water supplier, the City of Williamstown, which went into effect in November, 1995. Applying the rate of \$2.03 per thousand gallons to the test-year purchases of 42,891,000 gallons results in an annual purchased water expense of \$87,069, an increase of \$5,222 over the reported test-year amount. Therefore, Staff recommends inclusion of annual purchased water expense of \$87,069 for rate-making purposes.

Contractual Services Expense

Corinth proposed to reduce reported test-year contractual services expense of \$12,096 by \$8,462 based upon much lower costs incurred for the first quarter of 1996. Mr. William Hill, Corinth's manager, stated that he was comfortable with an annual allowance of \$3,634 for contractual services expense. Given that, Staff recommends that annual contractual services expense of \$3,634 be included for rate-making purposes.

Operations Summary

Based on the recommendations of Staff contained in this report, Corinth's operating statement would appear as follows:

	<u>Test Period Application</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
<u>OPERATING REVENUE</u>			
Water Sales	\$228,133	\$ 5,221	\$233,354
Other Water Revs.	<u>6,021</u>	<u>- 0-</u>	<u>6,021</u>
Total Revenue	\$234,154	\$ 5,221	\$239,375
<u>OPERATING EXPENSE:</u>			
Salaries & Wages, Employees	\$ 37,962	\$ 630	\$ 38,592
Salaries & Wages, Officers, etc.	2,843	-0-	2,843
Pensions & Ben.	2,322	-0-	2,322
Purchased Water	81,847	5,222	87,069
Purchased Power	1,108	-0-	1,108
Mat. & Supplies	4,113	-0-	4,113
Contractual Serv.	12,096	(8,462)	3,634
Transportation	4,226	-0-	4,226
Insurance	2,507	-0-	2,507
Bad Debts	436	-0-	436
Miscellaneous	1,030	-0-	1,030
Depreciation	59,685	-0-	59,685
Taxes Other Than Income Taxes	<u>3,490</u>	<u>-0-</u>	<u>3,490</u>
Total Operating Exp.	<u>\$213,665</u>	<u>\$ (2,610)</u>	<u>\$211,055</u>
OPERATING INCOME:	\$ 20,489	\$ 7,831	\$ 28,320
<u>Other Inc./Deduc.:</u>			
Interest/Div.	\$ 1,987	\$ -0-	\$ 1,987
Misc. Non-Utility Expense	<u>(100)</u>	<u>-0-</u>	<u>(100)</u>
Total Other Inc./ Deductions	\$ 1,887	\$ -0-	\$ 1,887
Income Available For Debt Service	<u>\$ 22,376</u>	<u>\$ 7,831</u>	<u>\$ 30,207</u>

C. Revenue Requirements Determination

Staff has calculated Corinth's average annual debt service to be \$89,942.¹ Corinth's adjusted operations reflect \$30,207 in income available for debt service which results in a debt service coverage ("DSC") of .34X. Staff is of the opinion that Corinth's current rates are inadequate and will not cover payment of operating expenses and debt service requirements. In cases involving water and sewer districts, the Commission's normal practice is to allow a 1.2 DSC which provides a 20 percent margin above annual principal and interest requirements. However, in this instance, Corinth has an outstanding lease with the Kentucky Association of Counties Leasing Trust Program ("KACo"). With regard to the KACo lease payments, only a dollar-for-dollar coverage is required. Therefore, Staff recommends an increase in annual revenues of \$59,735 calculated as follows:

Avg. Annual Debt Service	\$ 89,942
Adjusted Operating Expense	<u>211,055</u>
Total Revenue Requirement	\$300,997
LESS:	
Adjusted Test-Year Revenues	239,375
Other Inc./Deductions	<u>1,887</u>
Increase Required	\$ <u>59,735</u>

D. Rate Design

In its application, Corinth filed a schedule of present and proposed rates. Corinth's current rate design consists of a four-step declining-block rate. Staff did not make any changes in Corinth's rate design but allocated a percentage increase for each rate

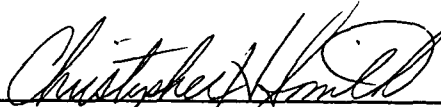
1 3-year average of principal payments due	\$ 28,667
3-year average of interest payments due	<u>61,275</u>
Total of 3-year avg. of P&I payments due	\$ <u>89,942</u>

increment. The rates recommended by Staff will generate annual water sales revenues of \$293,089.

E. Signatures



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APPENDIX A

TO STAFF REPORT CASE NO. 96-292

The Staff recommends the following rates be prescribed for customers of Corinth Water District.

Monthly Rates

First 1,000 gallons	\$15.35 Minimum Bill
Next 4,000 gallons	7.50 per 1,000 gallons
Next 5,000 gallons	5.15 per 1,000 gallons
Over 10,000 gallons	4.50 per 1,000 gallons

Truck Loading Station	
Per 1,000 gallons	\$ 5.25